

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF INDIANA

DEPARTMENT OF FINANCIAL INSTITUTIONS

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| |) | |
| In the Matter of |) | |
| |) | CONSENT ORDER |
| STATE BANK OF BURNETTSVILLE |) | |
| BURNETTSVILLE, INDIANA |) | FDIC-14-0301b |
| |) | |
| (STATE CHARTERED |) | |
| INSURED NONMEMBER BANK) |) | |
| |) | |

State Bank of Burnettsville, Burnettsville, Indiana ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law or regulation alleged to have been committed by the Bank, and of its right to a hearing on the charges under Section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under Section 28-11-4-1 through Section 28-11-4-12 of the Indiana Code, Ind. Code 28-11-4-1 to 28-11-4-12, regarding hearings before the Department of Financial Institutions for the State of Indiana, ("DFI"), and having waived those rights, entered into a

STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the DFI, dated November 10, 2014, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law or regulation relating to weaknesses in capital, asset quality, management, earnings, liquidity, and sensitivity to market risk, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the DFI.

The FDIC and the DFI considered the matter and decided to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Ind. Code §§ 28-11-4-1 to 28-11-4-12, have been satisfied, the FDIC and the DFI HEREBY ORDER that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. (a) Within one hundred and twenty (120) days from the effective date of this ORDER, the Bank shall have and retain qualified management. At a minimum, such management

shall include a new senior lending officer with an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's portfolio, and the Bank shall commence a search for such a senior lending officer within thirty (30) days from the effective date of this ORDER. Management shall be provided the necessary written authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Operate the Bank in a safe and sound manner;
- (iii) Comply with applicable laws, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall request and obtain the FDIC's and DFI's written approval. For purposes of this ORDER, "senior executive

officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

BOARD PARTICIPATION

2. (a) As of the effective date of this ORDER, the Bank's board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives, and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of Banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; reconciliation of general ledger accounts; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within thirty (30) days from the effective date of this ORDER, the Bank's board of directors shall develop,

adopt, and implement a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

3. (a) As of the effective date of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of nine (9.0%) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of twelve (12.0%) percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate

description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan and, in any event, not less than twenty (20) days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to the DFI, 30 South Meridian Street, Suite 300, Indianapolis, Indiana 46204, for their review. Any changes requested to be made in the materials by the FDIC or the DFI shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within ten (10) calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

(d) Should the Bank be unable to reach the required capital levels within the time frames specified in subparagraph (a) above, or be unable to maintain those levels, then within thirty (30) days of receipt of written direction from the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the State Director of the Department of Financial Institutions ("Director"), the Bank shall develop, adopt, and implement a written plan to sell or merge itself into another federally insured financial institution or to otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements of this paragraph. A copy of the plan required by this paragraph shall be submitted to, and determined to be acceptable by, Regional Director and the Director.

LOSS CHARGE-OFF

4. As of the effective date of this Order the Bank shall charge off from its books and records any loan classified "Loss" in the Report of Examination dated June 23, 2014 ("ROE").

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

5. (a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional

credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extension of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the ROE, so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard" or "Doubtful", in the ROE, and is uncollected unless the Bank's board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. A copy of the statement shall be signed by each Director, and incorporated in the minutes of the applicable board of directors' meeting. A copy of the statement shall be placed in the appropriate loan file.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

6. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$100,000 which is, delinquent or classified

"Substandard" or "Doubtful" in the ROE. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;
- (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;
- (iii) Delineate areas of responsibility for loan officers;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets within six (6) and twelve (12) months from the effective date of this ORDER; and
- (v) Provide for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(b) As used in this paragraph, "reduce" means to:
(1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the DFI.

(c) The plan required by this paragraph shall be acceptable to the Regional Director and the Director.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

LOAN REVIEW AND GRADING SYSTEM

7. Within sixty (60) days from the date of this ORDER, the Bank shall develop, adopt, implement, and adhere to comprehensive loan grading and review procedures. The procedures shall require that such loan grading and review will be performed by a qualified individual. The loan review shall at a minimum:

(a) Require periodic confirmation of the accuracy and completeness of the watch list and all risk grades assigned by the Bank's loan officers;

(b) Identify loans or relationships that warrant special attention of management;

(c) Identify violations of law, rules, or regulations and credit and collateral documentation exceptions and track corrective measures;

(d) Review the bank's application of Financial Accounting Standards Board Accounting Standards Codification FASB ASC Subtopic 310-10 (which now supersedes prior FAS 114 guidelines); and

(e) Identify loans not in conformance with the Bank's loan policy.

LENDING AND COLLECTION POLICIES

8. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, adopt, implement and adhere to written lending and collection policies to provide effective guidance and control over the Bank's lending function. In addition, the Bank shall obtain adequate and (where applicable) current documentation for all loans in the Bank's loan portfolio.

(b) The Bank's loan policy and practices required by this paragraph, at a minimum, shall incorporate the items discussed in the ROE.

(c) Copies of the policies required by this paragraph shall be submitted to the Regional Director and the Director.

LOAN POLICY

9. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a Loan Policy.

(b) The Loan Policy required by this paragraph, at a minimum, shall include provisions:

(i) Requiring that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, have a clearly defined and stated purpose; and have a predetermined and realistic repayment source and schedule.

(ii) Incorporating collateral valuation requirements, including:

- (A) maximum loan-to-collateral-value limitations;
- (B) requirements for periodic updating of valuations; and
- (C) a requirement that the source of valuations be documented in Bank records.

- (iii) Establishing review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy.
- (iv) Requiring the establishment and maintenance of an effective loan review and grading system and internal loan watch list.
- (v) Correcting the loan underwriting and credit administration deficiencies noted in the ROE.

(c) Copies of the policies required by this paragraph shall be submitted to the Regional Director and the Director.

ALLOWANCE FOR LOAN AND LEASE LOSSES

10. (a) From the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, the board of directors of the Bank shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and thereafter maintain and accurately report the same. The minutes of the board meeting at which such

review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or the DFI.

(b) ALLL entries required by this paragraph shall be made prior to any capital determinations required by this ORDER.

PROFIT PLAN AND BUDGET

11. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall revise, adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2015 and 2016. The plans required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) During each monthly board meeting following completion of the profit plans and budgets required by this

paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(d) Copies of the plans and budgets required by this paragraph shall be acceptable to the Regional Director and the Director.

LIQUIDITY

12. (a) Within (60) days of the effective date of this ORDER, the Bank shall review its contingency funding plan and fully address the liquidity issues identified in the ROE.

DIVIDEND RESTRICTION

13. As of the effective date of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Director.

CORRECTION OF VIOLATIONS

14. Within sixty (60) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all

violations of law, rule, and regulations listed in the ROE, and implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

SENSITIVITY TO MARKET RISK

15. Within ninety (90) days of the effective date of this Order, the Bank shall formulate, adopt, and implement a revised Interest Rate Risk plan which shall fully address the comments set forth in the ROE and shall provide for the regular preparation of interest rate sensitivity reports. The reports shall document all significant assumptions made, which should be tailored to the Bank's risk characteristics.

NOTIFICATION TO SHAREHOLDER

16. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER: (a) in conjunction with the Bank's next shareholder communication; or (b) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

17. Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the

Director written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the date of its issuance by the FDIC and the DFI.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and the DFI.

Dated: November 19, 2014.

Pursuant to delegated authority.

/S/
Dennis L. Bassett
Director
Department of Financial
Institutions
State of Indiana

/S/
M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation